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Economic Conditions
Governmental Finance
United States Securities

New York, July, 1932.

General Business Conditions

THE outstanding development of favorable character during the past month has been the quieting down of nervousness both here and abroad regarding the soundness of the dollar. Evidence of this improved psychology has been clear to all having contacts with business and the markets, but has been most definitely reflected in the foreign exchanges where the dollar has strengthened in terms of all currencies and is now quoted at levels rendering gold shipments no longer profitable for the first time since March.

For this marked change for the better in sentiment regarding the financial position of the country, the action of Congress in finally enacting the tax bill and in accomplishing some measure of economy in expenditure is undoubtedly chiefly responsible. It is true that the measures taken by Congress to maintain the Federal finances in order leave much to be desired. The budget is nearly balanced on paper, but it requires a great deal of optimism indeed to believe that it will be so in fact. Nevertheless, the program, unsatisfactory though it may be, is vastly better than the confusion existing during the preliminary discussion. The paramount task was not so much to achieve an iron-clad balancing of the budget, as to demonstrate a determination on the part of the Congress to keep the deficit under control and not to give way to the temptation of unrestrained inflation.

Besides the influence of tax legislation in Congress, sentiment has also been benefitted greatly by the belief that the gold drain upon the United States is nearing its end. This belief arises partly from the action of Congress in avoiding seriously inflationary measures and partly from the understanding that foreign balances in this country have now been drawn down to the point where further reduction would hardly provide leeway for the working balances normally required by trade. During the past nine months since Great Britain departed from a gold basis foreigners have recalled over a billion dollars of the enormous balances accumulated here after the war, and the steady outflow of gold on so large a scale has been a constant source of uneasiness regarding the position of the dollar, notwithstanding the ample reserves existing in this country. Now, however, that the repatriation of these huge balances is so near completion, leaving the financial position still immensely strong, confidence in the United States has been correspondingly increased.

This is a development of the first magnitude. Confidence in the currency is a first condition of economic recovery, since without it there can be no certainty as to the outcome of any business or investment undertaking. If Congress fulfills the general hopes of an early adjournment, and there is no further extensive gold outflow, it is probable that the talk of inflation and of possible abandonment of the gold standard will continue to die down, thus affording relief from what has come to be a highly disturbing influence. Confidence, however, is a tender plant which requires careful nourishment in the beginning, and it would not take a great deal to nip it in the bud.

It is a fortunate circumstance that despite the low level of prices and general economic distress resulting therefrom the money question has not become a subject of acute political controversy. The chief of the inflationary proposals, the soldiers' bonus bill, was decisively defeated in the Senate by a vote of 62 to 18, and both major political parties are for sound money and the gold standard

Why Balance the Budget?

It is true that a great many people today are puzzled in all sincerity as to why it is necessary to balance the budget. They look about them and see evidences on all sides of a lack of purchasing power among the people and they arrive quite naturally, though not quite so wisely, at the conclusion that the way to remedy the situation is for the government to create more money. This is a common mistake, and one which has laid the foundation for every great currency debacle from the days of the French assignats to the destruction of the pre-war currencies of Cen-

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tral Europe. There are only two ways in which the government can put out more money, and both of them are dangerous. Either the government can simply set the printing presses to work and manufacture more money and pay it in meeting its maturing bills, or it can use its credit and borrow heavily by offering its securities in the open market. Neither process, however, can be continued indefinitely. The former is nothing more nor less than debasement of the currency and if persisted in will destroy its value entirely. The latter involves the government's credit, which is good only so long as it is not abused. Once confidence in that is lost, it will no longer be possible to find buyers for the increasing volume of government issues that have to be sold. All this has been demonstrated so thoroughly during the recent period of currency chaos in Europe that it is surprising that such methods are not completely discredited.

If there were any assurance that a program of inflation by the government could be kept under control it would not be so bad, but unfortunately this is never the case. No political body like Congress can undertake to tinker with the currency without the gravest sort of perils to the country, for once such a body starts out on this course and gets the idea that it need not balance the budget there is no telling where it will stop.

And so long as there is any doubt as to the soundness of the government's fiscal policy business men and investors everywhere are unwilling to make new commitments. Caution rules everywhere, and money which should be flowing into business enterprise is held back, concentrated in the short-term money markets where liquidity and security are at a premium, or even withdrawn from the banks and hoarded or exported, thus impairing the ability of the banking system to extend credit and so adding new complications to the situation.

Given, on the other hand, assurance that the government intends to uphold the soundness and value of its money, and to follow a course in public finance which guarantees that end, investors will once more become susceptible to the investment opportunities that exist around them. While courage comes back slowly, funds seeking first the higher grade issues, eventually the temptation of higher yields obtainable elsewhere overcomes timidity, the security markets become steadier and broader, permitting, first, necessary refinancing operations, but later, the absorption of issues to raise new funds. Thus, gradually courage and enterprise are restored and industry revives. This is the natural way, and the one that leads to lasting and permanent improvement. The other way threatens disaster, if indeed it does not render it inevitable.

Federal Reserve Efforts to Expand Credit

It is because of the importance of an improvement in sentiment in creating a willingness to use credit that the passage of fears over the soundness of the dollar is to be regarded so hopefully. The credit is there awaiting only the will to use it. In previous issues of this Bank Letter we have described the activities of the Federal Reserve Banks in making credit available through the purchase of government securities. Since the end of February the amount of governments so bought has amounted to over $989,000,000, and the failure of business to revive more promptly in the face of these huge operations has caused a good many people to regard the Federal Reserve policy as a failure.

Such a charge, however, is premature and indicates a failure to understand what has been accomplished. In the first place, it must be realized, as we pointed out last month, that not all of the credit put out by the Reserve banks through purchases of governments has been available for an increase in bank deposits. Allowance must be made, first, for the fact that gold exports took approximately $433,000,000 out of the market during this period. Second, member banks which were in debt to the Reserve banks employed these funds to pay off this indebtedness before expanding their credits, the amount of funds thus absorbed amounting to approximately $347,000,000 as rediscounts were reduced from $835,000,000 in February to around $488,000,000 in June. Due principally to these offsetting factors, the net increase in member bank reserves was not $989,000,000, but $188,000,000, a considerably smaller sum, but one which nevertheless would have been ample to finance an increase of at least $1,880,000,000 in member bank deposits.

Thus; the Federal Reserve policy has to its credit not only the offsetting of gold exports and their prevention from forcing a further disastrous contraction of deposits, but a marked reduction in the burden of member bank indebtedness which was having a similar deflationary effect. While it has not yet been successful in definitely checking the decline in deposits it has caused a marked slowing down in the rate of decline, and has built up in the market a large supply of available funds which will seek profitable employment at the first sign of encouragement.

The reason why this supply of available funds has gone unused is chiefly lack of confidence. Banks have been criticized for failure to put their excess reserves to work, but banks cannot create good credit risks if none are pre-

sented to them, nor are they justified in investing in poor ones; neither can they be expected to invest funds payable at short notice in securities without some assurance of stability in the security markets. And the prime bar to stability in securities has been the uncertainty engendered over the value of the money, which puts a question on the value of investments of all kinds.

In short, measures taken in the monetary field to expand credit, raise prices and overcome depression must be supported by sound public finance, else confidence is impaired and the entire program breaks down. It is the uncertainty caused by the long delay on the part of Congress in acting on the budget that, more than any other single factor, is responsible for the failure of Federal Reserve policy to accomplish more positive results.

Trade and Industrial Conditions

The arrival of Summer has added a seasonal factor to the other conditions restricting business, and trade and industrial activity have both receded further during the past month. Hope is general that this acute Summer slackening will mark the stopping point in the long decline, but the prospect for a pick-up before the crop movement and cooler weather come along is not very encouraging. The Labor Department's index of employment in the manufacturing industries for May stood at 59.7 per cent of the 1926 average, compared with 62.2 for April, and the decline was the largest in recent months. Evidently there has been a further drop in June. Of course the unemployed and short-time workers provide a poor market for goods of any kind, while the farmers' condition is no better, since in May the farm purchasing power as measured by the ratio of prices received to prices paid dropped to 50 per cent of the pre-war average, compared with 53 in April.

Plainly neither the factory worker nor the farmer is able to buy the products of the other, though the wants of each for the other's goods are undoubtedly as great as ever. This defines the situation as it is, namely a breakdown in the equilibrium of prices and other economic relationships and thus in the exchanges, under which even the industries supplying goods of everyday personal consumption have had to reduce their operations further and give less employment, keeping the vicious circle going.

The effort that many of the industries are making to bridge the gap between the prices of their products and the reduced buying power of their customers is a notable one, and under less severe conditions undoubtedly would be effective, but the breakdown is world wide and is complicated by a paralysis of enterprise and distrust of the future in a degree never before known. According to the estimates of the Fairchild Service retail prices as measured in the New York department stores on June 1 were 17.7 per cent less than one year ago and about 34 per cent below November, 1929. This is typical of the drop in general merchandise prices and is a great reduction in view of the numerous items of cost that are not readily decreased, but obviously it does not make up for the fall of 55 per cent in the payroll disbursements of the manufacturing industries and the equal decline in prices of farm products. Hence the volume as well as the dollar value of retail trade is reduced and the textile and apparel and the other "light" industries which traditionally give the lead in business recovery have had to curtail.

The situation is unbalanced and the condition is an obstinate one. A state of balance and free exchange of products and services is recognized by all economists as the fundamental condition of prosperity, giving employment to everyone and giving the highest standard of living which the productive facilities at the time can yield. There is no single or easy way of restoring equilibrium. It requires the cooperation of all, of capital and labor in the industries in reducing costs and prices, of all parties in the governing bodies in lowering expenditures and maintaining sound money, and in the present situation of all the nations.

The Live-at-Home Farm Program

The farmer withstands these hard times better than the city worker. He lacks cash for fertilizer, for repairs and replacements, and perhaps even for gasoline for his tractor, but he has in the soil and his own labor and in his home the first essentials for living, and not only is he digging in but city workers are moving back to the farm to dig in also. Thus to some extent specialized agriculture tends to break down in depressions as severe as this, and to revert to general purpose farming in which raising a living is the first aim and raising cash the second.

The reduction in cotton acreage this year, which private estimates place at less than 10 per cent, is a disappointing one to the trade in view of the carryover of more than one year's supply from this season. But under present conditions shifting of the cotton growers off the soil cannot be expected, and it has been difficult to plant anything else offering better prospect of cash return. In the cotton belt as in the corn belt and elsewhere more of the living has been grown at home, cash expenditures cut, and the labor of the farmer and his family put into the crop which he knows best and for which his climate is suited. Within reason-

able limits the live-at-home program is a desirable one not only in hard times but at all times. The farmer has broader resources, is more independent, and on the joint cost principle the cost of his cash crop is reduced. Adversity has speeded this program as prosperity never could.

Depression has checked the growth of mechanization and the adoption of new production technique in agriculture, but of course the setback is temporary, and improvement will speed up again when reviving industry begins to attract some of the present surplus of farm labor back to factory work.

Taxes and Mortgage Debts

Prices of farm products, lower in most cases by two-thirds than before the depression, put the farmer at a heavy disadvantage in paying his taxes and no form of "relief" could be more practical than reduction of government expense and taxation. Where in addition the farmer has to meet mortgage payments and interest the situation of course is a very difficult one, since the product of three acres is now required to pay charges that the product of one acre paid when they were contracted.

The attitude of the creditor in dealing with delinquents naturally is of foremost importance, and there is abundant testimony that it is generally one of consideration, taking into account the mutual interest of lender and borrower, and adopting foreclosure only as a last resort. The life insurance companies are large lenders on farm mortgages, the reporting companies having outstanding $1,846,000,000 of farm loans at the end of last year. We have permission to quote from a memorandum of policy prepared by one of the large companies for the instruction of its financial correspondents, which undoubtedly represents the policy of other companies. It recites steps to be taken to avoid foreclosure, such as arrangements to have unpaid interest or advances for the payment of taxes liquidated from the future sale of products, possibly securing these additional claims by a chattel mortgage or crop lien; postponing such payments until the next year if the difficulties were caused by crop failure; assisting the owner who wishes to sell to find a buyer; and cooperating with other creditors.

With respect to the last step, foreclosure, as the only recourse, the instructions read as follows:

> It is an easy matter for a correspondent to write to us the moment a loan defaults and advise that because of the default foreclosure should be instituted. We do not propose to foreclose under such circumstances. Foreclosure with us is the last resort only. The—— Company is large, but regardless of this fact it has a keen interest in each and every one of its borrowers, the same as it has in each and every one of its policyholders. There are many reasons for a default in the payment of interest and it is not the purpose of this Company to be unfair or to work any hardships upon any borrower, but on the other hand it is the intention and purpose of the Company to extend aid and encouragement to each and every individual wherein the facts indicate that the individual is deserving of such aid and encouragement. When a complete report is rendered us showing that it is impossible to make a collection otherwise, and that all resources have been exhausted, it will be our desire and purpose to promptly place such a loan in foreclosure.

This is a rational but lenient policy, and it has been of immeasurable benefit in reducing the distress caused by these difficulties. The last bulletin of the Department of Agriculture on the farm real estate situation states that "when foreclosures have been accomplished the former owner is frequently urged to remain as a renter," and plans looking to eventual repossession by the delinquent have been reported. Necessarily such cases are but a small minority, but give a further indication of the general policy.

The farm markets have had a mixed trend during the past month. All the livestock markets advanced on smaller receipts, after having made new lows around the end of May, but wheat dropped to within striking distance of last year's bottom, cotton sold at the lowest prices since 1848, and butter at the lowest since 1898.

The wheat market has been a disappointing one in view of the short Winter wheat crop in this country, estimated by the government as of June 1 at only 411,000,000 bushels. There are other features bullish on the price, including a smaller visible supply than last year and a smaller Russian Spring wheat acreage, particularly in the export regions. The offsetting factors have been the good start of the Spring wheat crop in the Northwest and in Canada, estimates of increased acreage in Australia and Argentina, and the movement of the new crop.

Sugar has had a good advance during the month. The price of sugar had been less than the out-of-pocket expense of harvesting the cane, turning it into sugar, and getting the sugar to New York, disregarding all other items of cost, and of course a change had to come. Cuba has elected to curtail the next crop by decree, the terms of which indicate an output of not over 2,000,000 tons, compared with 2,700,000 this year. This will be the smallest crop since 1912. Whether by legislative or economic law, the curtailment had become inevitable.

Industries Quiet

A general statement has already been made as to the dullness of industrial activity. The automobile industry supplies the best news for June, the figures of output and registrations apparently having equalled or exceeded those for May, contrary to the usual seasonal de-

cline. For most manufacturers the falling off came earlier, but the Ford company, which was late in the field, continues to work on its accumulated orders, and according to trade reports will have capacity operations for some weeks to come.

Building contracts awarded during the forepart of the month declined under May, and the steel industry, with its widely varying outlets, reflects the dullness of other industries in a decline to 16 per cent of capacity in the latest week reported, according to the Iron Age. This compares with the Institute's figure of 20 per cent for May, and is a new low point for the depression.

Cotton mill operations have dropped steadily since February, the decline to May in the weekly average production of carded cloths having been 25 per cent. Even at the reduced rate the mills sold only about 80 per cent of their May output and conditions in June have been no better, with the result that cotton consumption is the lowest for this time of year since figures became available in 1912.

Worsted goods prices were cut drastically early in June, and more interest has been shown in lines for Fall clothing, but the season is late and slow, and the woolen industry, which led in the "Spring rise" last year, is less than half as active this year. Despite curtailment of rayon production prices have been cut sharply. Part time work is also general in the silk mills, which in May took 27 per cent less raw silk than last year. The shoe industry is another, conspicuous in the upturn in early 1931, which is doing less well this year. May production of 22,000,000 pairs was 22.7 per cent below a year ago.

The mid-year meeting of the American Petroleum Institute at the beginning of the month was an interesting occasion, President Amos L. Beaty making the statement that "ours is the one major industry that gives some promise of recovery." This is also the opinion of W. S. Farish, president of the Humble Oil & Refining Co., who said to the annual meeting of the U. S. Chamber of Commerce in May:

> It is my deliberate judgment that the oil industry currently is in a sounder economic position than any other large industry in America. Moreover, in its most important aspects oil is in a sounder position today, in the face of the current depression, than it ever has been previously since it became an industry of first magnitude.

The basis for these statements is the success of the industry in controlling production of crude oil and slowly reducing the surplus which at times has demoralized the markets. However, Mr. Beaty expressed alarm, in vigorous language, concerning the trend toward increased drilling. Gasoline consumption has been well sustained, the economics committee of the Institute expecting a decline of only 6 per cent in domestic consumption in the last nine months of this year, compared with 1931. The committee states that the average number of automobiles in use in 1932 will decrease approximately one million, or more than 4 per cent.

Money and Banking

Reference has already been made in earlier paragraphs to the efforts of the Federal Reserve Banks to expand credit. During the past month the actual rate of purchases of government securities has been reduced. This, however, is not to be interpreted as indicating a change of policy, but simply as a reflection of the fact that, having built up member bank reserves to a figure estimated at around $300,000,000 in excess of requirements, the central banks have seen no particular point in adding further to the excess at a time when, because of other factors, the funds already available were not being put to use.

The total volume of Federal Reserve Bank credit outstanding has continued to increase, though at a slower rate than heretofore. The principal source of the demand for Reserve bank credit has been the requirement of gold for export which reduced monetary stocks by $237,000,000 during June.

Domestic demand for currency, however, has shown an increase, due apparently to a new outcropping of bank failures, particularly among the smaller neighborhood banks in Chicago. After the formation of the Reconstruction Finance Corporation in February the number of bank failures dropped sharply and in the succeeding four months to the end of May totaled only 318, compared with 342 in the month of January alone, and 522 in the peak month of October last year. In the four months of Reconstruction Finance Corporation activities, the number of reopenings was 115, so that the net reduction in banks was only 203.

For the first three weeks of June, however, the number of failures increased to 87, according to preliminary figures of the American Banker, compared with 77 in the full month of May and 71 in April. Of this total, 42 occurred in the week of June 23, of which 22 were, as stated, among the smaller outlying banks in Chicago, where the situation has been tense for some time. As usual, the trend of bank failures found reflection in the currency circulation figures, which rose nearly $100,000,000 during the month to $5,505,000,000. This was the highest since March and within $250,000,000 of the Christmas peak.

To offset the combined effect upon the market of gold and currency withdrawals the Reserve banks increased their government security holdings by $155,000,000, leaving the balance of the demands to be met out of the

excess reserves. The portfolio of bills bought in the open market also increased somewhat during the month, leaving member bank borrowing practically unchanged at slightly under $500,000,000, the level to which it had been reduced as a result of the Reserve banks' purchases of government securities during the Spring.

Bank Rate Reduced to 2½ Per Cent

Action of the Federal Reserve Bank of New York in lowering its rediscount rate from 3 to 2½ per cent on June 23 need occasion little comment in view of the marked state of ease prevailing in the money market. Since the reduction in the bank rate from 3½ to 3 per cent in February before the credit expansion program was begun, bankers acceptances have fallen from 2¾ to ⅞ of one per cent, open market commercial paper from 3¾ to 2½ and time loans on stock collateral from 3½-3¾ to 1½ per cent. New York banks have done relatively little borrowing from the Reserve bank for months, and instead have accumulated excess reserves of approximately $100,000,000. Thus, a cut in the bank rate appears to have been long overdue, and doubtless would have taken place some time ago had it not been for the heavy outflow of gold. Now, however, that the gold movement has slackened, there has been no further reason for delay in giving official recognition to the condition of ease in the market, and the directors of the Reserve bank have acted accordingly.

Following the action of the New York bank, the Federal Reserve Board the next day announced a reduction in the rediscount rate of the Federal Reserve Bank of Chicago from 3½ to 2½ per cent.

The Trend of Member Bank Credit

The trend of member bank credit has been disappointing, in view of the efforts of the Reserve banks to bring about an increase. We have already commented upon some of the reasons for this in our leading article. During the four weeks ended June 22 the total loans and investments of the weekly reporting member banks declined $175,000,000, and deposits $214,000,000, reaching in both cases levels, but for June 8, slightly lower than any touched previously this year. To be sure, the reductions are not large compared with the drastic declines experienced during the Fall and early Spring; nevertheless, the fact that a sagging tendency has appeared after some promise of an upturn a month ago is unpleasant evidence of the continued unsatisfactory state of business.

The volume of bank investments has been maintained, but has failed to increase to any great extent, notwithstanding the plethora of funds. The stability of the total has been due chiefly to an increase in holdings of government securities following the offering of new Treasury securities on the 15th. Holdings of other securities lost ground somewhat after a period of increase in April and May.

Loans, on the other hand, have continued to show a shrinkage, though at a less rapid rate than earlier in the year. Loans on stocks and bonds declined $132,000,000 between May 25 and June 22, and "all other" loans $159,000,000 in the same interval. The total of loans is now at the lowest since 1922. While low prices, dull business and absence of speculative demand are doubtless responsible in the main for the decline of loans, it is probable that the activities of the Reconstruction Finance Corporation have also been a factor. Since its inception this Corporation has loaned over $660,000,000 to banks, railroads and insurance companies, etc., a considerable part of which has gone to repay bank loans and so to reduce these totals.

The Gold Situation

With the authoritative announcement that the $50,000,000 of gold earmarked by the Bank of France in the third week of June would complete the withdrawals by that institution, the scare over the position of the United States has measurably subsided. Inasmuch as the bulk of the withdrawals on the current movement have been by that institution, which held by far the largest balances here, the fact that the drain from that source is now over puts a new aspect on the situation. It is possible, of course, that the United States may experience further losses of gold, but with so large a proportion of the foreign balances already liquidated the chances of these becoming embarrassing are remote.

In the nine months since September 1st the United States has exported or earmarked for foreign account the immense sum of $1,547,000,000, representing the heaviest movement of gold the world has ever known. Of this total, $1,213,000,000, or 98 per cent of the gold actually shipped (detailed figures on earmarkings are not available) has gone to Europe, divided among the principal countries as follows:

	Exports to Europe Sept. 1931 to June 1932
France	$ 769,038,000
Netherlands	166,318,000
Switzerland	139,623,000
Belgium	99,171,000
United Kingdom	14,209,000
Germany	14,695,000
Portugal	4,474,000
Italy	4,427,000
Rest of Europe	1,045,000
	$1,213,000,000

The United States was helped in meeting this drain by an inflow of $434,000,000 in gold

during the same period, chiefly from Japan, China, Canada and Latin America, making the net reduction in the country's total stock of monetary gold $1,113,000,000. This brings it to $3,917,000,000, the lowest since 1923, but still nearly a billion dollars more than in 1921 just before the great post-war inflow began, and two billions more than in 1914 before the outbreak of the war.

Despite the heavy gold losses of the past year, the strong financial position of the United States can easily be demonstrated. On June 22 the reserves of the Federal Reserve Banks amounted to 57.8 per cent of their total note and deposit liabilities combined, against a legal minimum of 40 per cent against notes and 35 per cent against deposits. This can be considered ample margin of safety, the higher ratios of recent years being justified by the large foreign balances maintained here (now greatly reduced) which called for unusually large reserves against them.

On the basis of the bank statement as of June 22, the Federal Reserve Banks still have almost a billion dollars of gold above minimum requirements. This can be shown by a simple calculation. Total gold reserves of the Federal Reserve Banks amounted to $2,563,000,000. Setting aside $1,046,000,000 as the minimum 40 per cent cover for the $2,616,000,000 outstanding Federal Reserve notes and $557,000,000 to satisfy the 35 per cent requirement against $2,173,000,000 of deposits (the reserve against deposits may include "reserves other than gold") leaves $960,000,000 of gold above the legal limitations.

Should the United States be called upon to export an additional $500,000,000 of this excess, the remaining $460,000,000 would still make possible the issuance of over a billion dollars more of currency, if needed.

While the publicity given to these gold withdrawals has been disturbing, there is no regret in this country that foreigners have seen fit to reduce the huge volume of funds they have been carrying in this market. These large accumulations have been recognized as an unstable element in our money market, as well as a factor in the maldistribution of gold which has had so serious an effect upon world credit conditions. It was inevitable that a redistribution of this gold should take place. This is now going forward. While thus far most of the gold shipped from here has merely increased the already redundant reserves of such countries as France, Switzerland and Holland, the pressure of these idle hoards, earning no return, will be a constant influence upon their owners to seek wider uses for them at the earliest opportunity.

The Bond Market

The past month opened with a sharp rally in the bond market upon the announcement that the American Securities Investing Corporation, the so-called "bond pool" formed by leading New York banks and banking houses, had been incorporated and had begun to purchase securities. This corporation, which is authorized to issue $120,000,000 of debentures, is in no sense a relief measure for the attempted support of the bond market in general or of particular issues, but was organized strictly as a profit-making undertaking for permanent investment in such securities as might appear to be selling currently below their real intrinsic values. In the minds of the public, the importance attached to the formation of the corporation was not based upon the direct effect which its purchases might have upon bond prices, but rather upon the confidence which was implied as to prospective recovery in the future.

Following this rally, and when it became apparent that the corporation had no intention of deliberately bidding securities to a higher range, the market quieted down, but the level of prices during the remainder of the month was fairly well sustained.

United States Government securities have fluctuated irregularly with the trend of developments at Washington on a number of important questions, but the market became increasingly strong when the legislation toward balancing the budget was finally adopted, the soldiers' bonus proposal defeated, and the loss of gold checked. Enactment of the higher income tax rates in the new law has likewise increased the demand for Governments, since the value of their tax exemption features to large investors is increased accordingly, but this artificial demand is at the expense of other divisions of the bond market, and diverts capital even for refunding purposes from the productive industries. The chief uncertainty for the future is the question of vast governmental relief projects, which if enacted will involve continuance on a great scale of the troublesome deficit financing of the past year or more.

Demand for municipal bonds, likewise stimulated by their tax exemption, has been well sustained and has resulted in clearing virtually the entire floating supply from the market. Prices have remained firm, although they have not risen to any appreciable extent, as might have taken place if the available new capital coming into the investment market had not been so largely taken in financing the Federal Government deficit. Offerings of new municipal issues have been much smaller during the past year than for several years pre-

ceding, and have been below the amount of retirements through serial maturities and sinking fund purchases; consequently the total outstanding municipal indebtedness has turned downward after having expanded continuously for many years.

New offerings during June included practically no corporate securities and were largely confined to municipals, of which the largest issue was $18,000,000 in bonds of the State of New Jersey maturing serially from 1934 to 1967, which was very well received on an interest basis ranging from 3.50 to 4.35 per cent.

A substantial rise in German issues featured the foreign bond market during the month. Hope that the Lausanne Conference might contribute to the solution of Germany's problems by eliminating or scaling down reparations payments is regarded as the chief force behind the advance, which has carried some quotations up 25 to 50 per cent from their lowest. Most issues, however, are still selling at heavy discounts and afford unusually high yields, which reflect the prevailing uncertainty as to whether the foreign exchange necessary to transfer the debt service payments can be continuously obtained. The chief difficulty on the part of the public or private borrowers is not in providing funds for meeting the charges, but in converting these funds into foreign exchange without the shipment of gold from banking reserves, at a time when world trade has almost collapsed and the balance of Germany's exports over imports has been declining as compared with the satisfactory figures of one year ago. Substantial amounts of German bonds are being taken out of the market through the regular purchases for sinking funds, which at present depreciated prices permit several dollars par value of bonds to be retired for every one dollar of cash applied.

U. S. Government Finances

During the fiscal year just closed, the United States Government had an excess of expenditures over receipts in the neighborhood of $3,000,000,000, the largest deficit ever incurred by a government in this or any other country except during the war. In the previous fiscal year, ended June 30, 1931, there was a deficit of approximately $903,000,000, while in each of the preceding years back to 1920 there was a surplus.

A year ago it was estimated that receipts in the 1932 fiscal year would amount to $2,359,000,000 and expenditures to $4,482,000,000 giving a deficit of $2,123,000,000. Actual receipts, however, from income taxes, customs duties and miscellaneous internal revenue fell substantially below estimates and up to June 23 came to but $1,955,000,000. Expenditures during the same period totaled $4,721,000,000, the increase over estimates being due principally to the $500,000,000 subscribed by the Treasury to stock in the Reconstruction Finance Corporation and $100,000,000 to stock in the Federal Land Banks. This brought the deficit up to that date to $2,766,000,000, or an average deficit of more than $9,000,000 for each working day. The figures do not include $164,000,000 advanced in the form of loans to the Reconstruction Finance Corporation, in addition to the capital subscription, but include $402,000,000 payments into the sinking fund for the statutory retirement of public debt.

Estimates for the 1933 Fiscal Year

Interest now centers on the new fiscal year, ending June 30, 1933, for which the announced policy of the Administration is to balance the budget. The tax bill which became law on June 6 provided for a sharp increase in income tax rates and the imposition of various special taxes, together calculated to raise $1,118,000,000 and to increase total receipts to $3,258,000,000. Expenditures were estimated originally at $4,113,000,000. This would show a deficit of $855,000,000, but deducting $497,000,000 payments into the sinking fund would leave a deficit of $358,000,000, which the Treasury proposed to eliminate by various economy measures. Such a plan, if realized, would terminate the need of borrowing for current operations, although of course a large amount of new Treasury offerings would still be necessary for the refunding of the short-term debt, including nineteen issues of bills, certificates and notes aggregating $4,057,000.000 which mature over the next twelve months.

It appears, however, that actual results in 1933 are likely to fall considerably short of bringing the budget into balance. Receipts from income taxes were originally estimated on the assumption of some improvement in business this year, whereas the trend of activity and earnings has continued downward. Expected revenues from the new taxes may have to be revised downward, and the discovery of certain omissions in the text of the bill relating to gasoline and oil will alone mean a loss of $32,000,000. Moreover, the figures on estimated receipts include the doubtful item of $270,000,000 due from foreign governments in payment of principal and interest on war debts.

On the expenditure side, the expected economies of perhaps $300,000,000 were reduced to $150,000,000/$165,000,000 in the bill just passed by Congress, while no account has been taken of the funds needed for the Reconstruction Finance Corporation or for the appropriations of $2,000,000,000 or more that have been proposed for relief projects.

The R. F. C. Accounts

Although the capital of the Reconstruction Finance Corporation, beyond the $500,000,000 subscribed by the Treasury, is in the form of debentures representing the obligations of the corporation, these securities are guaranteed by the United States Government. Thus far no offering of the securities has been made to the public, all of them being purchased by the Treasury from the proceeds of its own borrowings. Under the system of accounting adopted, purchases of the corporation's debentures are not treated as expenditures in the statements of the Treasury. This is a correct accounting procedure but does not alter the fact that the funds subscribed have to be borrowed by the Treasury in addition to the funds to meet its current deficit. Loans made by the corporation between February 15 and June 23, after deducting all repayments during the period, amounted to $664,000,000.

On top of the current deficit and the R. F. C. disbursements, the proposals now pending under the various "relief plans" calling for the additional expenditure of possibly $2,300,000,000 for construction of post offices and other government buildings, and for loans to States, for agricultural purposes and for income-producing and self-liquidating projects, etc., call for sums that would strain the borrowing capacity of even the United States Government in times such as the present. The markets give evidence that the sums named could not be borrowed at all on long term, and doubtless only at increasingly higher rates on short term. The argument offered for the proposals is that private business initiative has broken down and that government initiative must be invoked to promote business enterprise, but it is in order to state that the fear of uncontrolled government expenditures is undoubtedly one of the chief factors causing the loss of confidence and enterprise everywhere.

The Lausanne Conference

The long-awaited conference upon German reparations began at Lausanne on June 16, evidently without any of the preliminary agreements which had been hoped for, to speed its work to a prompt conclusion. Events immediately preceding, i. e., elections and new governments in both Germany and France, made preliminary negotiations impracticable, but there is reason to fear that public opinion in these countries, as expressed by political and legislative bodies, is not yet such as to permit agreement between the Governments.

The British delegation at Lausanne, headed by Premier MacDonald, is united for decisive action and MacDonald, presiding, opened the Conference with a very strong appeal, on the ground that reparations and intergovernmental debts arising out of the war must be cleared up before there can be any restoration of confidence or return to normal business life. Touching upon the sanctity of agreements, he said:

> Our problem is not only one of technical details but of broad principles. One principle is surely very definitely before this conference. Engagements solemnly entered into cannot be set aside by unilateral repudiation. That principle is not challenged by anybody here. But it carries with it a corollary, and that corollary is absolutely essential to recognition of the principle, viz., if default is to be avoided engagements which have been proved incapable of fulfillment should be revised by agreement. Both sides in all agreements must be ready to face the facts. And among the facts they have to consider not only those of whether plans hitherto formulated have imposed an impossible burden, but of whether and how they have contributed by economic, financial and commercial unsoundness to the deplorable economic state in which the world finds itself.

It is conceded that the German delegation has a convincing case so far as inability to pay reparations at the present time is concerned. It has the findings of the committee of experts provided for by the Young Agreement and later evidence of the gravity of financial and economic conditions in the country. Increasing demands for poor relief have made it necessary to reduce the rate of aid granted and to increase the special tax upon the incomes of all persons gainfully employed to a maximum of 6½ per cent.

The Conference began its proceedings by agreeing to a suspension of all reparations and debt payments between the participants for the time the Conference is in session, and in the event of failure to effect a final settlement it is expected that there will be no objection to a further extension of the moratorium for a limited time, although the German delegation probably will decline to countenance any proposal which involves a revival of payments. It is suggested that the Conference may adjourn to a date some months later, which would automatically extend the present moratorium. Herriot, the French premier, was the premier who carried France into the Dawes Plan, and no doubt is anxious to effect a settlement now. He is reported as being willing to assent to a moratorium of three years but as holding that upon a return of prosperity modified payments should be resumed. Von Papen for Germany responds that any arrangement for a revival of reparation payments will retard business recovery or if made effective will upset the situation again.

The political situation in Germany affords little ground for hope that the German delegation will alter its position. The French probably are ready to go farther than at any time heretofore, but it is doubted that they will yield completely. The other delegations probably would fall in line if Germany and France would agree. All are anxious for a settlement. The existing situation in finance, commerce

and industry throughout Central and Southeastern Europe is very grave and may become more serious. It is indeed one of the most critical situations in human history, and not because of a lack of the supplies required by human wants, but because of the inability of governments and the intractable population groups behind them to settle their differences, sink their grievances and agree upon terms for business relations with each other.

We of the United States, however, are not in position to reproach Europe. This country's unyielding attitude is the subject of most unfavorable comment. While this attitude has been in a measure provoked by unfair criticism, some recognition of changed conditions since the debt settlements were made, and of the great need for international cooperation at this time, would surely be more in harmony with the sentiments of the American people than the position taken by the Congressional resolutions. There is reason to believe that the United States could break the deadlock at Lausanne by a conciliatory policy, while our present attitude is perhaps an insuperable obstruction. This country's interest in international cooperation and business revival is as great as that of any other country, and whatever may have been the chief cause of the depression there can be no doubt that reparations and debts are a factor in present domestic uncertainties.

Improvement in Australia

The dark picture which the world economic situation presents is not without brighter spots indicating that in a few countries at least adjustment to new conditions is far along and a new state of balance is being reached. The countries affected earliest by the depression were in general debtor countries producing raw materials. When loans to these countries from their creditors ceased and prices of their products simultaneously began to fall their situation soon became desperate, forcing upon them, by way of difficulties and hardships, severe readjustments in both their internal and external business. In view of the world situation not all of these countries have been able to better their position, and for the same reason it cannot be said of any that its difficulties are over, but Australia gives an example of meeting the new conditions and of the way in which recovery will come about.

The payments due abroad on Australian public debts have been met. Very early in the depression the country was forced off the gold standard by an unfavorable balance of payments, which the first task was to rectify. The effort to meet foreign obligations has led to a great effort to keep up exports and an even greater curtailment of imports, which have averaged this year $13,000,000 monthly compared with $60,000,000 in 1929. Despite the lower prices received for exports, in the first five months this year the country had an estimated export surplus of $70,000,000 compared with $120,000,000 for the full year 1931, and with import excesses of $41,000,000 in 1930. and $106,000,000 in 1929.

This export excess has supplied foreign exchange formerly received through loans, and has provided for the public external obligations during the period. Private remittances continue to pay high exchange rates, but since last Fall the rate has dropped. Gold holdings have been held virtually intact since last August, and Australian 5 per cent bonds have had a substantial rise in this market from about 46 to above 60.

To accomplish the improvement in the balance of payments severe internal adjustments naturally have been required. The brunt of changed conditions was borne first by the producers of raw materials but in due time declines in wages, salaries and domestic prices helped them to reduce their costs. Accompanying a voluntary reduction in bank rates, legal machinery has been set up through which interest rates on existing mortgages can be reduced 22½ per cent to a minimum of 5 per cent. The depreciation of the currency effects temporarily a reduction in items of expense and domestic prices relative to export prices, accomplishing indirectly a readjustment which would be more difficult to accomplish directly. The cost of production of farm products thus has been lowered, and effort made to increase the output of products for export. Crops were marketed rapidly this year and a larger acreage is being planted for the next wheat crop, according to preliminary reports.

According to the National Bank of Australasia the production of primary commodities for the current year is the largest on record. This institution says of the trade figures that they—

> reflect a resolute effort, made by Australian producers and traders, supplemented by savings contributed by all sections of the community, which has enabled this country to meet its heavy obligations abroad during a period in which its commodities have been selling at extraordinarily low prices. They indicate the ability and the desire of Australia to pay the interest on her oversea debt, and should certainly be more effective toward restoring the confidence of oversea investors than any statements made by political or social leaders.

and again—

> It is felt that, so far as internal conditions are concerned, Australia need go no further along the path of deflation, but can look for an improvement in its trade production and employment immediately world conditions show definite improvement.

The Bank likewise reports a greater demand for domestic goods in the following terms:

The increased efficiency and the lowering in costs forced upon industry by the depression, together with the present premium on export bills, has stimulated exports of many lines of manufactured goods and prepared foodstuffs. Notable among these are preserved fruit and tinned butter. More important is the extent to which local manufacturers have increased their capacity to provide for local requirements. This is especially marked in the clothing trade, though many lines of goods not previously manufactured in Australia are now being produced in sufficient quantities to cover local demand. The increased use of Australian woolen fabrics has been a useful factor in maintaining the price of raw wool, and it has been linked up with marked activity in clothing manufacture, and the employment of a large number of operatives.

Recent tariff reductions on certain goods give evidence of the greater security Australia feels as to the balance of payments.

The Political and Fiscal Situation

Government deficits have been as troublesome in Australia as elsewhere, and the fiscal problems have not been finally solved. The political situation was a factor of great uncertainty until the decisive defeat of the Lang Government in New South Wales on June 11. Mr. Lang represented the extreme left wing of Labor and in addition to defaulting the payment of New South Wales bonds (which was assumed by Commonwealth) his government obstructed the execution of the Economy Plan adopted by the Premiers' conference in May 1931. Finally Mr. Lang over-stepped the law and was removed from office last April; and at the new election his party was defeated by an opposition standing in favor of reducing public expenditures, increasing taxation and paying the debts.

New South Wales is the most important State in Australia, possessing nearly 40 per cent of the population. Undoubtedly the consequence of a return of the Lang party to power would have been serious, but under the government elected the cooperation of the State will be given to make the economy plan more effective, and the debts will be paid.

The Premiers' Economy Plan has been put into effect in two ways. Wages of Federal and State employes were reduced 20 per cent last summer (with exceptions in New South Wales). The cost of the government debt was reduced by a conversion plan lowering interest charges, which holders generously supported. The present goal is further improvement in the budget position of the States. The combined deficit of the seven governments is above earlier estimates, due largely to the New South Wales situation, but is reduced to £18 millions this year from £31 millions one year ago. The troublesome problem of the railways, which under government operation are a burden on the budget, will be considered.

In Queensland the Labor party was successful in the election, but the party there swings less to the left than the Lang group.

Return to First Principles

It will be recognized that whatever of progress Australia has made has been by working and saving. In the post-war decade and under the stimulus of war influences and boom psychology the country discounted the future too freely, hastening its development beyond present resources, and living upon a scale of expenditures made possible by capital borrowed from abroad instead of produced and saved at home. The aftermath has been one of hardship, but the way out is only through the most searching government and private economies.

Australia has worked toward increased self-sufficiency, which is not favorable for other countries desiring to sell to her, but there has been no alternative. Of course, Australia cannot prosper until balance in trade relations is restored and the world prospers, but it is evident that improvement has been accomplished, and along the path of retrenchment and readjustment which other nations likewise must follow.

The League of Nations Gold Report

The final report of the Gold Delegation of the League of Nations made public during the past month comes at a timely moment. During the last year the gold standard has been called upon to face the first serious challenge since the decade of the 90s. It is true that the gold standard was suspended by practically all nations during the war, but this was recognized as an inevitable accompaniment of the conflict and signified no dissatisfaction with the gold standard itself. As soon as the war was over there was a universal desire to return to gold as soon as possible, and the success of the principal nations in achieving this goal was rightly regarded as one of the most important steps in post-war reconstruction.

Barely, however, had the world got safely re-established on the gold standard than the depression came on, leading eventually to the suspension of gold payments by all but a comparatively few countries. Once more international trade has, to a large extent, been thrown back upon inconvertible paper, with all the attendant risks of exchange fluctuations, or has been so hampered by exchange controls and restrictions as to stifle it and reduce movements of goods in many cases to barter. So far as the international monetary mechanism is concerned, the world is back almost to where it was at the close of the war.

Moreover, not only has the gold standard ceased to perform over a large part of the world its function of facilitating international commerce, but the value of gold—and consequently of all currencies based on gold—meas-

ured in terms of commodity prices and services, has risen violently in the past few years, and this has been accompanied by serious maladjustments in the economic system. It has increased the burden of indebtedness to the point where debtors everywhere are threatened with insolvency, and the unequal response of different classes of commodities and services to change in the general price level has disrupted the normal exchange relationships and so deepened and intensified the depression.

It is not surprising that these developments have produced attacks upon the gold standard. It is easy to confuse cause and effect in economic problems, and particularly so where the subject is so little understood by the general public as is the case with the money question. Because the gold standard has been unable to preserve an international monetary mechanism in a world which politically and commercially has been drifting into a kind of international anarchy, it has been loudly attacked as a failure. And because commodity prices have fallen abruptly after a period of extraordinary inflation, and after far-reaching readjustments in war and post-war industry and trade, and because such a fall in prices has necessarily meant a relative appreciation of gold,—the standard of measure,—a great many people have even held gold responsible for the depression.

In lieu, therefore, of the gold standard, there have been proposed various substitutes, ranging from bimetallism and partial dilution of central bank reserves with silver, to a "managed currency," by which is meant a currency divorced from metallic backing and "managed" entirely by the government or central banking authorities. All of which appears to be based on the naive assumption that by some kind of financial witchcraft a world which has come to depend for its existence and development upon a most intricate system of inter-dependent relationships can persistently follow policies calculated to break down those relationships without involving itself in collapse and ruin. It is not the gold standard but the system of international relations that has broken down.

Appointed by the Financial Committee of the League of Nations in 1929 before the beginning of the depression, the Gold Delegation was composed of a group of monetary experts of twelve different countries, including the United States, and charged with the task to "examine into and report upon the causes of fluctuations in the purchasing power of gold and their effect upon the economic life of the nations." With the onset of the depression, however, and the progress of events which have made the gold standard a subject of common controversy, the Delegation found it necessary to extend its inquiry beyond these somewhat theoretical boundaries and to consider the practical problem of the causes of the suspension of gold standard over the greater part of the world and the conditions necessary to re-establish the world on a gold basis.

Causes of the Breakdown of the Gold Standard

As to the causes of the breakdown of the gold standard, a considerable difference of opinion exists among the Delegation. The majority attribute the breakdown to a variety of causes, mainly traceable in the last analysis to the enormous dislocation of normal relationships of all kinds resulting from the war. Limitations of space do not permit of a detailed rehearsal of all these causes here, but the reader is familiar with the effects of the war in saddling the world with huge political and other debts, in developing new areas of production in competition with older areas, with the enormous speculative abuses of the period, and the attempt everywhere to thwart the corrective action of economic law through tariff, wage and price controls of all kinds. Out of these, and similar maladjustments and excesses, in the opinion of the majority, developed the influences leading to the final collapse.

In a note of dissent, a minority of the Gold Delegation reject the hypothesis that overproduction and similar disequilibria in the economic system were responsible for the breakdown. In their view, the breakdown is largely the product of a maldistribution of gold resulting from the obligation to pay reparations and war debts to countries which were unwilling to accept such payments in the form of goods and services. This maldistribution of gold, it is claimed, had the effect of causing a gold scarcity, with a resultant fall in prices and depression.

We do not wish to enter into an extensive discussion of these two points of view, particularly on account of the fact that both agree on the point most pertinent to this argument, —namely, that the breakdown in the gold standard was not due to any fault inherent in the gold standard itself, but to the conditions under which it was forced to operate. Nevertheless, it is in order to remark that the explanation of the minority seems to unduly simplify the problem. There will be no quarrel over the contention that the attempt to pay reparations and war debts over tariff barriers has been an important cause of the depression, and it was so stated in the majority report. But to imply that this was the one principal cause is to ignore many other important causes of serious maladjustment in the economic and financial system. Certainly, the feeling of insecurity regarding investments

which existed in many countries after the war, the high stabilization of the British pound without corresponding internal cost adjustments, and the relatively low stabilization of the French franc also had a great deal to do with the maldistribution of gold which has had so adverse an effect upon the world economy. The fact that the United States has been called upon to export over a billion dollars of gold over the past nine months in payment of foreign short-term claims against the dollar is evident that, so far as this country at least is concerned, the accumulations of gold which have been so criticized abroad have represented in a large measure the voluntary employment of foreign funds in our market. These sums could have been withdrawn at any time during the past few years and taken home had their foreign owners wished to do so.

Restoration of the Gold Standard

At a time when the monetary system is under criticism, and all sorts of proposals are being made to cure the depression by methods which in one way or another involve debasement of the currency, it is most opportune to have the considered opinion of these experts that "at the present stage of world economic development, the gold standard remains the best available monetary mechanism." To this declaration, the minority attach the reservation "if properly managed," which need not, however, detract seriously from the strength of the general endorsement, since no international monetary system can be successful under other conditions. Continuing, the Delegation records in positive terms its preference for the gold standard, and warns against the difficulties of any other system.

> It (the Delegation) is impressed by the practical difficulties and dangers of regulating currencies which are not on a common world basis, and by the very great desirability of agreement upon an internationally accepted standard in order to facilitate the free flow of world trade. Whatever the theoretical advantages that may be urged in favor of other monetary systems, their universal adoption presents very grave, if not insuperable, practical difficulties at the present time. The Delegation is, moreover, of the opinion that, granted the general acceptance of certain guiding principles, the gold standard is capable of functioning in such a way as to achieve most of the advantages of stability and justice claimed for alternative standards more broadly based on commodities other than gold.

While thus emphasizing the importance of re-establishing an international monetary standard, the report names certain accompanying conditions. These include in the national field the balancing of budgets and establishment of sufficient flexibility in the economic system to permit adjustment to changing conditions at home and broad to take place easily and promptly. And in the international field they include the removal of impediments to world trade and the recognition by all central banks of certain fundamental principles of monetary policy. While the majority do not agree that reparations and war debts have been the principal cause of the depression, the entire Delegation is in accord in urging that a satisfactory solution of this question and of other problems contributing to the impairment of confidence has now become vital to a restoration of world prosperity.

To these conditions, the minority make the additional requirement that the price level be raised by concerted central bank action. The majority, however, while regarding a rise of prices as desirable, do not believe that monetary policy alone can adjust the price level, which is influenced by many factors of non-monetary character. At the same time they recognize that "monetary policy, expressed through the volume of credit, may, if the general situation permits, play a large part in determining the level of prices." For this reason they state that "where credit contraction for one reason or another has been carried to extremes, it is proper and, indeed, imperative for the central bank to take such action as may be within its power to check excessive contraction, and in some cases to take the initiative in encouraging a freer use of credit." This statement is of particular interest to people of this country in view of the credit expansion policies recently adopted by the Federal Reserve Banks.

The Question of the Gold Supply

Passing to the question of the adequacy of the existing monetary stocks of gold, the Delegation comments upon the claim that gold shortage has been a cause of the depression in the following paragraph:

> Before proceeding further in our analysis of the problem of the gold supply, we wish at this point to record our opinion that the world's total stock of monetary gold, apart from any consideration as to its distribution among different countries, has at all times in recent years been adequate to support the credit structure legitimately required by world trade, and that the rapid decline of prices which began in 1929 cannot be attributed to any deficiency in the gold supply considered in this sense. During the six years from the end of 1925 to the end of 1931, the world's central gold reserves increased from about \$9,150 millions to about \$11,350 millions, or at an average rate of 3-2/3 per cent per annum. Since this rate is not lower than the generally accepted normal rate of growth of production and trade in the gold using countries as a whole, and since, in addition, certain economies were made in the use of gold, at any rate in the earlier part of the period considered, there seems to be little ground for believing that the total supplies of gold available for monetary use have not been sufficient to meet all reasonable demands.

With regard to the gold supplies of the future, the Delegation is of necessity less positive, inasmuch as these must depend upon a number of variables both on the side of supply and demand which cannot be precisely estimated at the present time. Nevertheless, the data assembled by the Delegation are reassuring, at least as to the near future.

The supply of gold available for monetary stocks in the last two years has turned out to be considerably larger than previously estimated. Whereas the first interim report of the Gold Delegation published in 1930 estimated that gold production in 1931 would amount to about $402,000,000, the estimates published in the report now being considered indicate it actually amounted to between $445,000,000 and $450,000,000, and the figure for 1932 may exceed $460,000,000. Also, the amount of gold available for monetary purposes has been further increased from other sources. In the first place, there has been a considerable decrease in the use of gold in the arts due to the depression. Moreover, a still more important factor has been the decrease in the demand from India which after the war absorbed about $80,000,000 gold a year, but which in 1931 actually surrendered approximately $125,000,000 of her previously hoarded stocks to the western world where it became available for monetary uses. While the Gold Delegation does not summarize the figures, it is estimated that as a result of these various influences total monetary gold stocks at the end of 1931, estimated at $11,350,000,000, were approximately $100,000,000 higher than the estimates prepared for that date a little over a year previous. Moreover, this does not include approximately $400,000,000 of gold estimated to be hoarded in the western nations since June 1931.

The search for gold-bearing ores has been resumed all over the world, and like attention is being given to the possibilities of lowering extraction costs. A further increase of production is probable, at least for several years.

As against this increase in gold supplies beyond former calculations, the demands upon gold reserves are temporarily lessened by the decline of commodity prices and the release of very large amounts of credit that in post-war years were absorbed in speculative operations of various kinds. Commodity prices are expected to rise with a return of more normal conditions, but perhaps not to the level of 1926-29, in view of economies in production and declining costs. Speculation in the period named employed an abnormal amount of credit and probably will not be as active again for many years.

The permanence of some of the other conditions may be questioned, and another important consideration is the disfavor into which the gold exchange standard has fallen. This standard differs from the pure gold standard in that the reserves of the central banks may consist wholly or in part of foreign exchange on gold countries rather than the gold itself. However, but for the extraordinary state of disorder resulting from the war, it may be assumed that the exchange standard would have rendered good service for an indefinite time, and there is reason to believe that it always will have an attraction on the score of economy to countries desiring to attach themselves to the gold standard without the cost of maintaining all reserves in gold. It has to be recognized that war puts an end to currency stability for a time, but the nations are not likely to abandon all efforts for stability on that account.

Economies in Use of Gold

It cannot be doubted that further economies in the monetary use of gold will be effected. The report suggests as possible methods, (1), withdrawal of gold still in circulation in some countries and concentration of all gold in the central banks, (2), in countries where bank notes of small denomination are in use the withdrawal of such currency and its replacement by subsidiary coinage, and (3), the wider use of checks instead of currency in making payments.

It also calls attention to the fact that since the war there has been a tendency to increase the reserve requirements, which it considers unnecessary and unwise. On the contrary, it favors greater liberty to central banking authorities in the regulation of reserves to suit their own conditions. The Delegation considers that with reasonable freedom of trade and the avoidance of such disturbing influences as arise from war there would be little danger of gold movements that the central banks could not readily handle, providing available supplies of gold are kept in the central banks and their use is restricted to the settlement of international balances.

A survey of the entire situation thus tends to the conclusion, first, that the depression was not caused by inadequate supplies of gold in the aggregate, for if the supply had been larger the inflation of prices and maldistribution probably would have been correspondingly the same; and, second, that the prospective supplies are likely to be large enough to meet normal needs as far ahead as immediate plans need reach.

The Delegation strongly favors international cooperation upon the entire monetary problem, and believes that the gold standard affords the best basis for beginning such efforts. The conclusion of the majority report as to prospective supplies of gold in the next few years indicates that there is time to review the situation together before any considerable change in gold production takes place. Undoubtedly, the trend of gold production in the next few years will have an important bearing upon the action to be taken.

Necessity for International Cooperation

And finally, the Gold Delegation adds its own authoritative voice to the previous testimony of experts, repeated again and again during the past year, urging the vital necessity for international cooperation in dealing with international problems. Besides calling for the closest cooperation at all times between central banks in the management of their credit policies, it argues in the present world crisis, in the most forceful language which it can command, that until there can be a settlement of the contentious political and economic problems which are destroying international intercourse there can be little opportunity for an international monetary system of any kind, or hope that industry and trade can pull themselves out of the depression that now envelops them.

If the statesmen of the world are not willing to assume a leadership in measures designed to eliminate these obstacles to the recovery of confidence and of trade, and the people to demand such leadership, it will not be for lack of ample warning of the dangers involved in further dilly-dallying in the face of the emergency. In December 1931, the Basle Committee of Experts, appointed under the terms of the Young Plan to pass on the question of a moratorium on German reparations payments, declared:

> The adjustment of all inter-government debts, Reparations and other War Debts, to the existing troubled situation of the world—and this adjustment should take place without delay if new disasters are to be avoided—is the only lasting step capable of re-establishing confidence which is the very condition of economic stability and real peace.
>
> We appeal to the Governments on whom this responsibility for action rests to permit of no delay in coming to decisions which will bring an amelioration of this grave crisis which weighs so heavily on all alike.

Early in April the Financial Committee of the League of Nations issued a report fairly breathing alarm over the condition into which the world, and particularly Central European countries, was drifting, as result of the failure to solve such questions as international debts and tariffs. It deplored the postponement of the Lausanne Conference from January to June, as a consequence of which "the world situation has gravely deteriorated." It called attention to the destructive effects of tariffs and other trade restrictions, and declared that "unless the creditor states accept the goods in which the major part of the debts can alone be paid, the tendency is simply to still more rigorous methods of control and trade obstruction" . . . leading inevitably to further fall of prices and the progressive strangulation of commerce. Not until these fundamental causes of the depression are dealt with, says the Committee, can the hoped-for improvement take place.

Again in May there appeared a similar diagnosis of world difficulties and prescription of a remedy by the Bank for International Settlements which said in its annual report:

> If the relative position of the international balances of payment is continuously to be upset by changes in tariff barriers, with profound effects on the equilibrium of the different countries; if the flow of capital from one nation to another is to be damned up by obstacles which make the fulfillment of contractual obligations virtually impossible, with the attendant destruction of general confidence, then the international monetary system cannot function properly. It becomes more and more evident that durable monetary stability cannot be expected to exist unless international relations in the economic field are radically improved. In the re-establishment of the world credit structure, cooperation between central banks will help; but the real solution of the problems involved requires the determined and concerted action of the Government.

And now comes the declaration by the Gold Delegation giving further warning that trade cannot be expected to revive and prosper in a world of discord. It concludes:

> We are deeply conscious that such improvements depend largely upon the restoration of international confidence and good will. There can never be any hope of establishing a monetary system that will function smoothly and efficiently in the promotion of economic cooperation between the nations until the nations are prepared to cooperate. The fundamental necessity for the creation of a more effective international montary system is the re-establishment, not so much of the technical processes of monetary interchange, but of the willingness to use these processes. The working of an international monetary system such as the gold standard presupposes interdependence of the nations. If, however, political conditions are such that nations hesitate to commit themselves to too great interdependence one upon the other, but impose rigid restrictions upon international trade in their effort to attain economic self-sufficiency there will be little scope for any international monetary mechanism. We do not desire to enter into the political aspects of this problem, but we do desire to record our conviction that without some measure of political settlement leading to renewed confidence in international economic and financial relations, there can be no secure basis for the restoration and improvement of world trade and finance.

Here is ample testimony on highest authority of the importance of these international problems in any program of business recovery. It remains to be seen whether the various nations can have the vision to come together and accept the mutual sacrifices necessary to achieve a common working basis without having to endure a further course in hardship and suffering.

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WHEN making your vacation plans, remember that National City Travelers Checks are accepted like cash wherever you go and each check is protected against loss or theft up to the moment you use it.

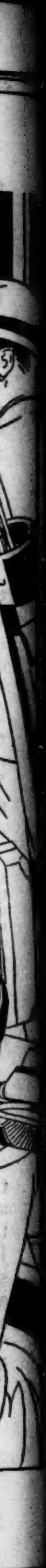
National City Travelers Checks are issued in a handy pocket wallet in denominations of $10, $20, $50 and $100. They are for sale at any National City branch or at your own bank at nominal cost.

THE NATIONAL CITY BANK OF NEW YORK

The National City Bank of New York

Head Office

55 WALL STREET - - - NEW YORK



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